The Office Of
State Treasurer
Denise L. Nappier

News

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Connecticut Treasurer Issues General Obligation Bonds under New Municipal Bond Rating System
State's General Obligation Bond Ratings Improve

HARTFORD – Connecticut State Treasurer Denise L. Nappier today announced the issuance of $624 million in general obligation (GO) bonds, making Connecticut the first state in the nation to sell bonds under recalibrated credit ratings that put municipal securities on the same scale as corporate and other types of debt.

Two of the three national credit rating agencies, Moody's Investors Service and Fitch Ratings, announced the ratings recalibrations last month following sustained efforts by Connecticut and other municipal debt issuers to call for parity in the way credit rating agencies rate debt securities. Prior to the recalibrations, credit rating agencies assigned ratings to issuers of municipal debt using more stringent standards than those used for issuers of corporate and other types of debt -- despite lower default rates for municipal debt. Moody's and Fitch have now abandoned this practice and began using single ratings scales for all types of debt.

The State of Connecticut received more favorable ratings for its GO bonds under the recalibrations. Moody's raised the State's rating from Aa3 with a negative outlook to Aa2 with a stable outlook. Similarly, Fitch increased the State's rating from AA with a negative outlook to AA+ with a negative outlook. Standard and Poor's -- which has not announced a ratings recalibration -- continues to rate the State's GO credit at AA with a stable outlook. These increased ratings may translate into increased demand for Connecticut bonds as the higher credit ratings can now meet minimum credit rating requirements for certain investors who would not have purchased the bonds with the lower credit rating.

"Moody's and Fitch have taken a historic step forward for the municipal market," Treasurer Nappier stated. "Issuers of municipal debt have long advocated for parity in a system that, until now, favored corporate and asset-based securities over municipal bonds. As we recover from the worst economic downturn in a generation, these increased credit ratings will translate to improved market access and increased investor demand for municipal bonds which will ultimately benefit the citizens of the State of

Connecticut. The higher credit ratings will bring in new investors which may not have purchased these bonds previously with the lower credit ratings. ”

Recognizing the relatively strong credit quality of municipal debt, the recalibrated ratings scales have improved the credit ratings for debt sold by Connecticut and most other state and local issuers. The changes in the credit rating methodologies also are expected to make bonds issued under the Build America Bond program more attractive to investors, potentially increasing demand for this new type of bond. The new Build America Bond Program has already provided significant savings to the State.

The ratings recalibrations from Moody’s and Fitch also were important to the issuance of $184 million in Build America Bonds (BABs) through a recent sale. BABs are taxable bonds created under the American Recovery and Reinvestment Act of 2009 (ARRA) to fund state and local capital projects at lower costs of borrowing than conventional tax-exempt bonds. It is anticipated that BABs issued in 2010 alone will generate savings of roughly $12 billion in borrowing costs for municipal issuers through lower net interest rates in comparison to tax-exempt bonds. Over the past year, the State of Connecticut issued three series of Build America Bonds at an estimated cost savings to Connecticut taxpayers of $44.3 million over the life of the bonds.

“With the recalibration,” Nappier said, “investors will finally be able to compare municipal securities to other taxable securities in a fair and objective way and make investment decisions accordingly.”

Treasurer Nappier actively advocated for uniform credit ratings for debt sold by municipal and corporate issuers. Last month, she led a coalition of seven state treasurers representing $180 billion in debt under management in calling on the Senate Committee on Banking, Housing and Urban Affairs to include a provision in the recent financial regulatory reform bill requiring the U.S. Securities and Exchange Commission to adopt a rule requiring rating agencies to rate municipal and corporate debt on the same scale. Shortly after the bill was reported out of Committee with the rating reform provisions, Moody’s and Fitch moved forward expeditiously with a rating recalibration, marking a historic step forward for the municipal credit markets.

Treasurer Nappier has been at the forefront of calling for rating agencies to recalibrate municipal bond ratings to a single rating scale. The rating recalibration follows a coordinated effort by several state treasurers, including several actions led by Treasurer Nappier, to encourage the credit rating agencies to establish single rating scale for all credits, including municipal credits. Treasurer Nappier first took a leadership role on this matter in 2003 when Connecticut stepped forward as the very first municipal issuer to secure a global scale rating from Moody’s. Treasurer Nappier was one of the first state treasurers to sign onto a March 2008 letter with California Treasurer Lockyer calling for the rating agencies to rate municipal debt on a single rating scale. In April 2008, Connecticut sold $2.2 billion of pension obligation bonds again under a corporate scale rating to attract major orders from overseas investors. Treasurer Nappier also authored several letters to the chairman of the SEC and the rating agencies encouraging movement on this issue.